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DATE 11/5/85

DOC NO GIM 85-10276

OCR CYS 3

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Central Intelligence Agency

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Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

15 OCT 1985

MEMORANDUM FOR: Kenneth Glozer
Deputy Associate Director
Special Studies
National Resources Energy and Science
Office of Management and Budget

FROM: [redacted] 25X1
Acting Chief, Economics Division
Office of Global Issues

SUBJECT: Financially Troubled OPEC Countries

Attached is a copy of a paper done by our Financial Issues Branch on financially troubled OPEC members. It discusses their problems on an aggregate level and a case-by-case basis. If you have any comments or questions, feel free to call [redacted] 25X1

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[redacted] 25X1

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Attachment:
Financially Troubled OPEC Countries: 25X1
Managing With Narrower Options, [redacted]
GI M 85-10276 [redacted] 25X1

[redacted]

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Central Intelligence Agency

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

15 OCT 1985

MEMORANDUM FOR: John Brodman, Director
Office of International Energy Analysis
International Affairs and Energies Emergencies
Department of Energy

FROM: [redacted] 25X1
Acting Chief, Economics Division
Office of Global Issues

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GI M 85-10276 [redacted]

[redacted]

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Central Intelligence Agency

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

15 OCT 1985

MEMORANDUM FOR: Robert H. Knickmeyer
Senior Economist and Financial Advisor
Near Eastern and South Asian Affairs Bureau
Department of State

FROM: [redacted] 25X1
Acting Chief, Economics Division
Office of Global Issues

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[redacted]

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[redacted]

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Central Intelligence Agency

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

15 OCT 1985

MEMORANDUM FOR: Charles Boykin
Deputy Assistant Secretary
Intelligence
Department of Energy

FROM: [redacted] 25X1
Acting Chief, Economics Division
Office of Global Issues

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GI M 85-10276 [redacted]

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[redacted] 25X1 25X1

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Central Intelligence Agency

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

15 OCT 1985

MEMORANDUM FOR: David Vance
Energy Specialist
Office of Economic Analysis
Bureau of Intelligence and Research
Department of State

FROM: [redacted]
Acting Chief, Economics Division 25X1
Office of Global Issues

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GI M 85-10276 [redacted]

[redacted]

[redacted] 25X1 25X1

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DIRECTORATE OF INTELLIGENCE

15 OCT 1985

MEMORANDUM FOR: Jack Sherrin
International Economist
Planning and Economic Analysis Staff
Bureau of Economic and Business Affairs
Department of State

FROM: [redacted] 25X1
Acting Chief, Economics Division
Office of Global Issues

SUBJECT: Financially Troubled OPEC Countries

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Managing With Narrower Options, [redacted]
GI M 85-10276 [redacted]

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Central Intelligence Agency

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

15 OCT 1985

MEMORANDUM FOR: David Tarbell, Director
International Economic and Energy Affairs
Policy Analysis
Department of Defense

FROM: [redacted] 25X1
Acting Chief, Economics Division
Office of Global Issues

SUBJECT: Financially Troubled OPEC Countries

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GI M 85-10276 [redacted]

[redacted] 25X1

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15 OCT 1985

MEMORANDUM FOR: See Distribution

FROM: [redacted]
Acting Chief, Economics Division
Office of Global Issues 25X1

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SUBJECT: Financially Troubled OPEC Countries

OGI/ECD/FI/[redacted](15 Oct85)

Distribution:

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1 - Steven Tvardek, Treasury
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1 - [redacted] OGI/SRD
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4 - OGI/ECD/FI

[redacted] 25X1

FINANCIALLY TROUBLED OPEC COUNTRIES: MANAGING WITH NARROWER OPTIONS

25X1

This paper was prepared by [redacted] Office of Global Issues. Comments and queries are welcome and may be directed to the Chief, Economics Division, OGI, [redacted] 25X1

GI M 85-10276

[redacted] 25X1

Overview

With oil prices continuing to stagnate, we believe the financially troubled OPEC countries--Algeria, Ecuador, Indonesia, Iran, Iraq, Libya, Nigeria, and Venezuela--will face narrower options and more difficult decisions in the near term.

- With reserves reaching perilously low levels and no other sources of foreign exchange, Iran and Libya probably will have to maximize oil revenues through more barter, price discounts and cheating on production quotas. The Iran-Iraq war, domestic turmoil, and associations with terrorism could interfere with their ability to obtain unsecured medium- and long-term loans from international money markets should needs arise.
- Continued social unrest could force Nigeria's new government to undertake a long resisted IMF-supported program as unpopular austerity measures will ensue either way.
- Without substantial Gulf aid, Iraq's cash flow problems will persist. Iraq will have an extra 700,000 b/d of export capacity later this year, [redacted] 25X1 25X1

Even though Algeria, Ecuador, Indonesia, and Venezuela are grappling well with their debt situations, each will be continually pressed to maintain strict austerity measures for years to come. [redacted]

In our judgment, the fragile monetary situation of these 25X1

[redacted] 25X1

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OPEC members also will cause a widening financial gap between rich and poor members, further fragmentation of opinion or cartel matters, and continued unilateral actions on the part of each with regard to oil policy. For example, Iraq will try to fully utilize its expanded production capacity. Coupled with Saudi Arabia's recent decision to raise output by up to 1 mb/d, an oil price decline of several dollars per barrel probably will result. 25X1

If oil prices fall further, all of these countries will have to resort to increased austerity measures that will aggravate popular dissatisifaction. In addition, the OPEC debtors--Nigeria, Venezuela, Ecuador, Indonesia and Algeria-- will face increased loan repayment difficulties with US and other Western banks. More positively, Iranian fervor to export the Islamic revolution could wane if Tehran's population has to live with less, although Libya's Qadhafi probably will continue to support subversive schemes despite tighter finances. 25X1

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Financially Troubled OPEC Countries: Managing With Narrower Options*

The soft oil market of the last four years has hit the economies of the financially troubled OPEC countries--Algeria, Ecuador, Indonesia, Iran, Iraq, Libya, Nigeria, and Venezuela--particularly hard. In contrast to Saudi Arabia, which only recently slid into external deficit, or other wealthy OPEC members, many of the poorer states faced deficits even during the oil boom of the 1970s. These deficits did not allow for a buildup of a foreign reserve cushion for the drop in oil revenues in the 1980s. In addition, many have large populations and foreign debts that make management of revenue shortfalls more difficult. 25X1

Situations and Country Responses to Date: Difficult but Manageable

We estimate that the financially-troubled OPEC members were forced to spend about $5 billion of their foreign reserve holdings and accumulate at least $3 billion of foreign debt in 1984. (See Figure 1). Total debt approached $130 billion--a 34 percent increase since 1980--while official foreign assets fell to an estimated $36 billion at yearend 1984--about 6 months of import coverage(See Table 1 and Appendix 1). The debt buildups and reserve drawdowns were the lowest since the oil market turned

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Financially–Troubled OPEC Countries: Foreign Debt and Foreign Assets

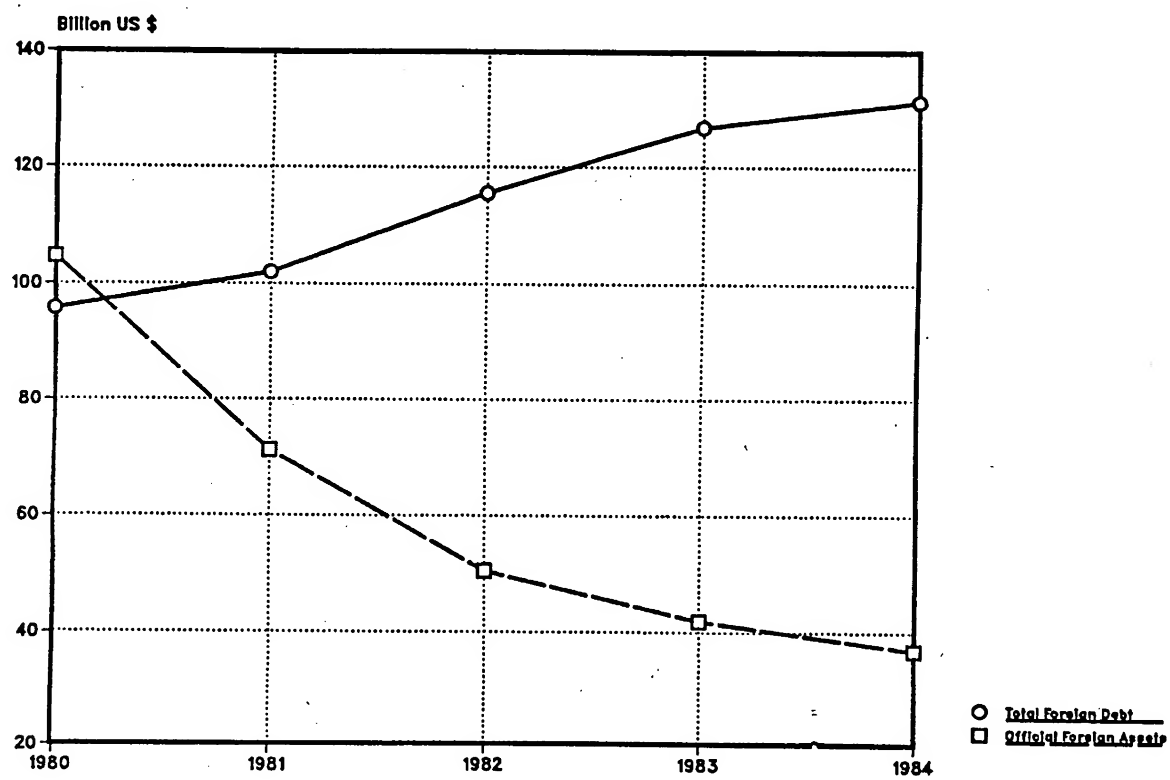

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Table 1

Financially Troubled OPEC Countries: Changes in Major Financial Aggregates, 1981-84

Billion US $ (Unless otherwise indicated)

	Oil Exports (000 b/d)	Oil Revenue	Nominal Imports	Foreign Assets	Foreign Debt
Algeria	101	-2.4	-.8	-2.7	-1.3
Ecuador	41	0.0	-1.0	-.1	2.2
Indonesia	-236	-5.1	-1.3	-.5	11.1
Iran	943	5.8	4.2	-4.2	-2.3
Iraq	160	-1.0	-10.1	-18.8	3.5
Libya	-19	-4.1	-8.4	-5.5	-.4
Nigeria	-53	-5.5	-10.0	-3.0	13.7
Venezuela	-368	-5.9	-4.9	-.3	2.8

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soft in 1981 reflecting an improved current account balance last year; the lower debt buildup also reflects reluctance on the part of creditors to extend new lending.

As a result of the reserve drawdowns, many of the eight OPEC members have pared foreign exchange reserves to dangerously low levels and will be hard-pressed to make further reductions.

- o Iran--traditionally a small borrower--recorded the largest reserve drawdown, spending about $3.5 billion, and bringing liquid assets down to an estimated $4 billion. On several occasions severe foreign exchange shortages forced Tehran to drastically restrict letters of credit for nonmilitary imports, according to press reports.
- o Libya divested $1.5 billion in 1984 and foreign assets now stand at an estimated $5 billion--about a third of the peak 1980 level. Libya's severe foreign exchange shortage resulted in spending restrictions on state companies and citizens travelling abroad.
- o Iraqi assets plummeted to a dangerously low $2 billion in 1984, but $3.5 billion in cash aid from the Persian Gulf States, oil sales on Iraq's behalf, and credits from its trading partners supported its cash flow.
- o Nigeria's reserves rose slightly in 1984 but remained in the $1 to $2 billion range--less than two months of import coverage. The cash squeeze prompted the government to cut 14 percent off the 1983 budget and include a larger allocation for debt service. Exchange

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controls lopped 50 percent off capital imports.

- Algeria and Ecuador recorded small reductions in foreign assets during 1984. At the same time, however, Algeria managed a modest repayment of short- and medium-term debt and obtained a $1 billion syndication from commercial banks earlier this year.
- Venezuela--the only one of the group to run a significant current account surplus in 1984--added $1.3 billion to official reserves and repaid another $1.5 billion of its $20 billion medium- and long-term debt. Indonesia continued to accumulate both debt and reserves, adding $1 billion to each last year.

[redacted] 25X1

Self-imposed domestic austerity along with the foreign exchange shortages have forced reduced import levels and have led many of these financially-troubled countries to rely on countertrade to secure imports(See Text Box). Since 1981, real imports from OECD countries have been slashed by 33 percent, according to International Monetary Fund (IMF) data; in contrast, imports of the 5 other OPEC members fell by only 2 percent in 1984 over 1981 with higher levels recorded during 1982-83. Even steeper cuts were forestalled by the rise in the value of the dollar--oil revenues are largely dollar-denominated--and the fact that over 80 percent of imports are from Western Europe and Japan. [redacted]

Only Iran--which had austere import levels during 1979-81--and Algeria managed to increase import volumes during the last 25X1

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two years. In contrast, Iraqi import volume dropped over 50 percent in the same period with capital and consumer goods dropping even more as military purchases displaced them. Ecuador, Libya, Nigeria, and Venezuela decreased import expenditures by at least 40 percent. Indonesia managed to avoid sharp reductions--nominal imports in 1984 were only an estimated 8 percent below the 1981 level--but only by rapidly increasing in foreign debt.

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Countertrade and Probably Counterproductive

As foreign exchange levels have slumped and oil at official prices has become more difficult to sell, countertrade is increasingly replacing conventional trade transactions in securing imports and expanding oil sales. Many OPEC members have engaged in barter, but Nigeria and Iran have become the heaviest users of countertrade arrangements.

- According to Embassy reporting, Nigeria will provide 95,000 b/d of oil to Brazil for $950 million of goods. Lagos has also completed deals with several West European countries involving about 110,000 b/d of crude. [redacted] 25X1 25X1
- We estimate that as much as half of all Iranian oil exports are arranged through countertrade deals. [redacted] Tehran prefers barter and will offer cash only for essential war materials--usually on delayed payment terms. 25X1
- Since mid-1982, Libya has supplied the Soviets with at least 100,000 b/d of crude in payment for arms and has a similar arrangement with South Korea, Italy, Greece, and Turkey.
- Iraq traded 20,000 to 40,000 b/d of oil to Brazil for goods during 1984. In addition, press reports indicate that Yugoslavia recently agreed to accept Iraqi oil as payment on $425 million of debt. [redacted] 25X1

As financially-troubled OPEC countries enter into more oil barter deals to circumvent foreign exchange shortfalls there could be detrimental long-run economic consequences. Although countertrade allows producers to hide price discounts and sell more oil, it also serves to overvalue the commodities traded for oil and raises the terms-of-trade to the oil exporter. By tying a large portion of exports to countertrade deals, oil producers forgo dollars that could be used to buy goods more cheaply. In addition, large administrative costs are incurred--commissions to middle men and lost time seeking and completing deals. [redacted] 25X1

Trade distortions also occur as importers are locked into making purchases from a few countries. Barter arrangements usually are signed for one-year periods during which monopoly positions can be created for sellers. According to Embassy reporting, a Nigerian government official said economic austerity was undermined as countertrade provided goods that Nigerians could do without. In general, domestic importers grumble about high prices, government interference and difficulties in dealing with only one seller. [redacted] 25X1

********************* [redacted] *********************

[redacted] 25X1

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Table 2

OPEC: OFFICIAL FOREIGN ASSETS[a]

BILLION US $

	1982	1983	1984
Poor OPEC	52.4	41.2	36.4
Algeria	5.0	4.0	3.2
Ecuador	.5	.8	.7
Indonesia	4.6	4.9	5.7
Iran	14.0	9.2	5.7
Iraq	8,.0	3.6	2.2
Libya	8.7	6.6	4.9
Nigeria	1.6	1.0	1.5
Venezuela	10.0	11.1	12.5
Rich OPEC	266.8	250.0	242.2

[a] Yearend Totals

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Table 3

DEBT SERVICE AND INTERESTS PAYMENT PROJECTIONS

MILLION US $

	DEBT SERVICE		INTEREST	
	1985	1986	1985	1986
Ecuador	1650	1540	565	455
Venezuela	3515	3437	1121	866
Indonesia	3727	3795	1614	1636
Algeria	4534	3440	994	780
Nigeria	4434	4194	1226	1032
Iraq	44.8	N/A	7	N/A
Iran	1240	N/A	189	N/A
Libya	N/A	N/A	N/A	N/A

Based on publicly guaranteed debt only.
World Bank Projections.

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[redacted] 25X1

Factors Bearing on the Outlook

Lower world interest and inflation rates and higher OECD economic growth resulting from lower oil prices would do little to offset the revenue impact for oil producers. We estimate that debtor OPEC members together would save only $500 million for each 1-point fall in world interest rates. Nigeria and Venezuela would receive 70 percent of the gain because of their large proportion of floating-rate debt. We also estimate that a 1 percentage point increase in OECD economic growth will increase noncommunist oil demand by only 300,000 b/d. Because these OPEC members rely on oil earnings for over 85 percent of their combined foreign exchange earnings, they would not substantially 25X1 benefit from growth in other export sectors. [redacted]

A drop in the value of the dollar also could financially harm these countries. Should the dollar fall, they could have difficulty maintaining already austere import levels. A precipitous fall in the dollar probably would shift some of their spending toward US goods, but all OPEC members would shoulder an additional financial burden in allocating more of their foreign exchange for imports. [redacted] 25X1

Fewer Management Options

The options of the eight financially-troubled OPEC states to cope with lower oil revenues varies widely, but in all cases are being steadily narrowed. In our judgement, while Venezuela is in the best position, all would be hard hit if oil prices should decline further. Nigeria and Iran are the most vulnerable. [redacted]

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Iran and Iraq

With no available external aid or credit, Iran is more dependent on oil exports than any other producer. We estimate that Tehran needs a minimum of $14 billion a year to sustain the war effort and the domestic economy at current levels. Revenues in 1985 will fall below that because of Kharg Island being out of comission. A severe foreign exchange shortage has already forced reductions in imports of spare parts, causing many firms to operate well below capacity. According to the Embassy, the unemployment rate has risen to 35 percent in some areas and shortages of goods have pushed the inflation rate to about 40 percent annually. Even though projected government spending for 1985 is 13 percent below the austere 1984 level, we expect the budget to show a $7 billion deficit. The government still is firmly in control but popular discontent--caused partly by the deteriorating economy--is spreading as evidenced by strikes, demonstrations and bombings. [redacted] 25X1

In the past year, Iran has responded to its economic plight by attempting to put on a less radical face in order to obtain international support. [redacted] Tehran 25X1 is beginning to accelerate the settlement of foreign claims in the World Court in order to encourage international acceptance of Iran as a viable trading partner. Furthermore, Iranian public denial of any association with recent hijackings probably is an attempt to appear less radical to Westerners and its Gulf neighbors. We believe Iran will have difficulty obtaining unsecured medium- and long-term loans from international money

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markets, however, because of the war and turmoil inside the country. Furthermore, its only allies--Libya and Syria--have their own cash flow problems. With no other income sources, maximization of oil revenue and procurement of bartered goods will remain the primary focus of the regime's foreign economic policy. [redacted] 25X1

In contrast to Iran, Iraq has been better able to insulate the domestic economy from the effects of the war and foreign exchange shortages, according to Embassy reporting. Though government regulations and price controls still result in shortages, supplies of consumer goods and living standards have been raised because of crackdowns on black marketing, increased repatriation of foreign exchange, and countertrade deals. In addition, the construction sector has not suffered a serious decline. [redacted] 25X1

Foreign exchange could be limited in the future, however, because of the continuing war and debt repayments. The US Embassy reports that Iraqi officials admit that cash flow problems will continue even if Baghdad secures a substantial new loan later this year and despite the fact that Japan again has agreed to defer about $700 million of 1983 debt for another two years. Baghdad has conserved foreign exchange by paying only what it considered to be its important lenders; [redacted] 25X1

[redacted] Lenders 25X1

probably will be more cautious with regard to Iraq in the medium-term, but the scheduled opening of the new Iraq-Saudi pipeline

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later this year and continued Gulf support are likely to make Baghdad a fair credit risk. [redacted] 25X1

Nigeria

Nigeria's new military regime will face the same dismal situation and alternatives as its predecessor. Declining oil revenues have already forced significant reductions in imports and government spending and a pileup of arrearages on short-term debt. Under President Buhari, the government shunnned $3 billion of IMF and World Bank support--and a subsequent debt rescheduling--because of the requirements for a large devaluation, trade liberalization, and sharp reductions in petroleum subsidies--measures Buhari probably felt would be politically destabilizing. [redacted] 25X1

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[redacted]

Libya

Because petroleum accounts for 45 percent of Libya's GDP, 80 percent of government revenues, and all of its foreign exchange earnings, Libya also has been hard hit. It initially was able to use its fairly ample assets to offset revenue losses but after a $10 billion drawdown since 1981, these are largely gone. Now, depressed foreign exchange reserves coupled with gross economic

[redacted] 25X1

mismanagement have resulted in food and spare parts shortages, according to Embassy reporting. Development spending has dropped 25 percent since 1981, and foreign construction projects are continually being cancelled as Libya faces increasing difficulty remitting payments to contractors. [redacted] 25X1

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The Qadhafi regime would face even more severe economic problems next year if oil prices again fall sharply. We presently expect a $1 billion current account deficit at current oil prices; however, a $3 billion shortfall would almost exhaust foreign exchange reserves. Borrowing has not proven to be a preferred option for Qadhafi probably because it could leave the government susceptible to Western economic pressures if repayment problems occur. If forced to borrow, however, it is unlikely that Libya will be able to secure financing from US banks and other Western and Arab banks will remain cautious since officials of both probably are wary of Qadhafi's association with terrorism. Even so, revolutionary pursuits probably will not be curtailed. Military and economic aid to Morocco, Syria, and Nicaragua totalled $500 million last year, and aid levels could approach the same levels in 1985. So far, Morocco has received $100 million and Sudan's new government was offered $110 million in cash and goods, [redacted] The financial squeeze probably will force Libya to further reduce imports and

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contract the domestic economy even as popular disgruntlement increases.

Algeria

Although hydrocarbon exports account for 98 percent of Algeria's foreign exchange and half of government revenues, crude sales are less important for its economic health than for some other producers. Large sales of condensates, petroleum products, natural gas, and natural gas liquids continue to shore up Algerian export revenues even though they are still affected by declining oil prices. Algeria even has managed to repay small portions of its debt over the last several years, while budget cuts and domestic price increases have constrained borrowing needs. Prices for bread and other subsidized goods were raised 12 to 17 percent earlier this year, which according to the Embassy will trim $50 million off budget spending and stimulate domestic agricultural production. With good growth potential in natural gas and oil products, we believe Algeria is viewed as a moderately good credit risk by lenders. Nonetheless, should oil prices fall, Algiers probably would implement tighter austerity measures and import reductions. If that were to happen, we believe there could be some social unrest, especially in urban areas. 25X1

Ecuador

The Ecuadoran economy is in better shape than most observers expected; real GNP grew by 3 percent in 1984 and 2.5 percent growth is expected for 1985, according to Central Bank figures. In addition, the Febres-Cordero administration has implemented

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many reforms designed to move the economy toward free market principles--such as measures to promote foreign investment and reducing many consumer subsidies--in accordance with IMF guidelines. A steep drop in oil prices, however, would wipe out much of the improvement in the current account since 1982 and debt service payments--the country's largest financial outflow--would become even more onerous. Furthermore, a resumption of large-scale capital flight and ensuing currency pressures would lower the amount of foreign exchange available for servicing debt. In our judgment, further economic structural reforms such as removal of price controls, reduced protectionism and privatization of industry probably will be popularly resisted, thus limiting the government's ability to cope with lower oil prices.

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Venezuela and Indonesia

Short of an oil price decline, we believe Venezuela is in relatively good shape. We believe the cautious Lusinchi administration would react to further oil price declines by further restricting imports and constraining economic activity. To do so would likely produce popular backlash, however. The government already is under pressure from labor to raise wages and stimulate the economy, according to Embassy reporting. Moreover, a decline in oil prices would undermine business confidence and could spur flight from the bolivar--prompting less business investment and further depressing economic growth. Caracas probably will not be able to borrow from commercial banks until private sector debt is rescheduled, possibly within a

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year. Venezuela does have a strong reserve cushion--about a year's import coverage. [redacted] influential segments of the population place a high value on the country's reserve position and the loss of more than $3 billion in assets could cause a political crisis. [redacted] 25X1

So far, Jakarta has made some progress in reducing dependence on petroleum exports and insulating the economy from market swings. Hydrocarbon revenues are projected to account for 60 percent of budget revenues this year, down from 66 percent two years ago. In addition, oil accounts for less than 60 percent of foreign exchange earnings. A fall in oil prices, however, could turn the improvement around. The government probably would be pressed to increase already heavy protectionist measures for many inefficient industries. Furthermore, Jakarta also would likely implement extensive import controls which would reduce industrial production and delay completion of government projects because imports consist primarily of capital and intermediate goods. A significant oil price drop could spur capital flight, making debt service more costly and retarding economic growth. [redacted] 25X1

Cartel Divisiveness

In our judgment, the fragile monetary situations of the financially-troubled OPEC members will continue to cause further fragmentation of opinion on cartel matters. We expect a widening financial gap between rich and poor OPEC countries for years to come to lead to continued unilateral actions with regard to oil policy (see figure 2).

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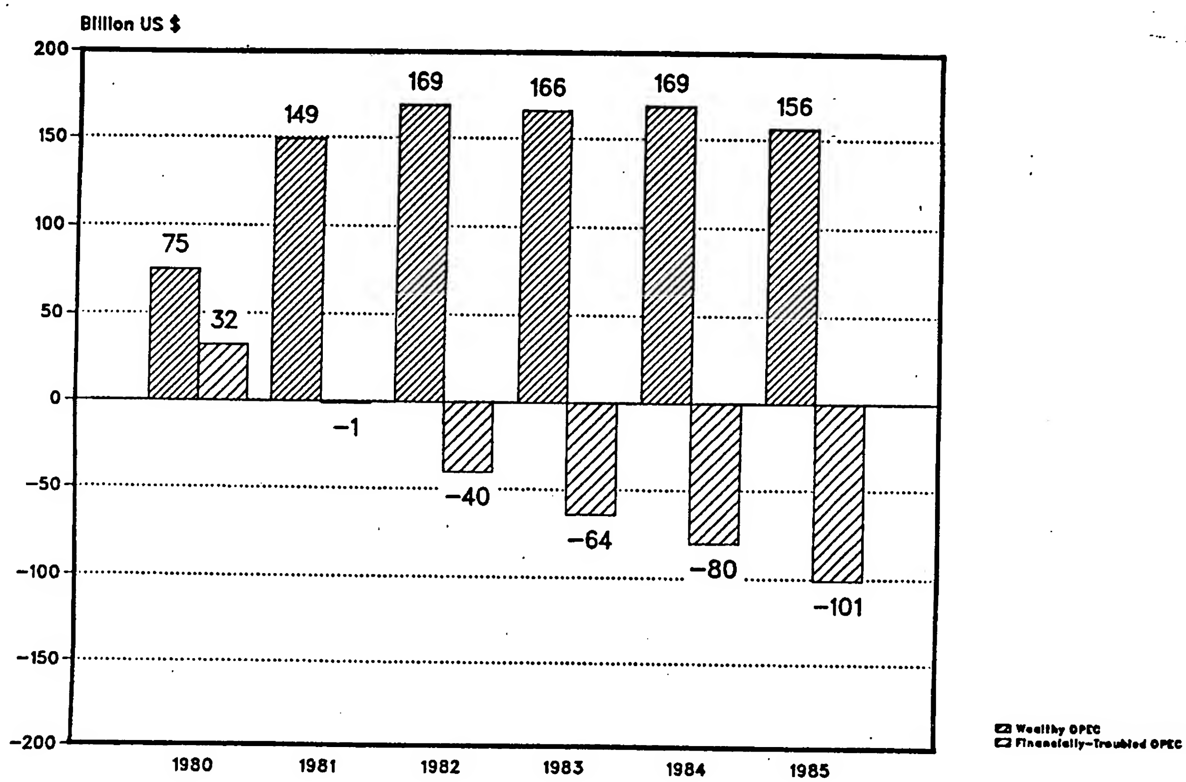
Wealthy vs. Financially–Troubled OPEC: Cumulative Current Account



[redacted] 25X1

Specifically:

- Venezuela cut prices of heavy crudes by about $2 per barrel in early August in response to sagging oil sales and to stay competitive with Mexico.

- [redacted] 25X1

- Ecuador continues to produce 100,000 b/d above its OPEC quota. Government officials defend Quito's policy by citing its marginal contribution to global production and arguing that larger producers should maintain production dicipline and price stability, according to Embassy reporting. Nigeria has produced 200,000 b/d above its 1.45 mb/d quota through the first half of 1985, [redacted] 25X1 25X1

- The Embassy reports that Indonesia sells at least a third of its oil on the spot market. In addition, press reports indicate that Jakarta is under pressure from Japan--its largest buyer--to discount prices.

- We believe Iraq will raise production by 700,000 b/d when the Iraq-Saudi pipeline comes on stream later this year and the Iraq-Turkey pipeline capacity is expanded. [redacted] 25X1

[redacted] 25X1

[redacted] 25X1

[redacted] 25X1

Actions by other producers and consumers are likely to exacerbate pressures on these members to cheat on OPEC guidelines and could prompt lower oil prices. Saudi Arabia is becomming increasingly irate with other members breaking cartel rules. Should Riyadh carry out its threats to produce its assigned quota, an extra 2 mb/d of oil could flood the market. To compound matters, non-OPEC producers like Mexico and Egypt are in worsening financial straits and probably will continue to ignore pleas to support the cartel especially if member support is not forthcomming. [redacted] 25X1

Implications for the United States

The worsening positions of the financially-troubled OPEC countries have a number of implications for US interests--some positive, some negative.

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- Some debtors in the group--especially Nigeria, Venezuela, Ecuador, Indonesia, and Algeria--will face increased loan repayment difficulties. [redacted]

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[redacted] Severe payments crises would pose problems for some large US banks and for the new democratic governments of Ecuador and Venezuela. [redacted]

- We believe foreign exchange shortages may be beginning to reduce Iran's adventurism but we doubt that they will have much effect on Libya's. Iranian fervor to export the Islamic revolution appears to be decreasing as Tehran's population has to live with less. Furthermore, relations with Western countries may improve if moderates in the regime who favor stronger ties succeed in using economic issues to discredit radicals. In contrast, as long as Qadhafi remains in power, we would expect him to sacrifice his own people's economic interests in order to pursue his anti-Western activities. [redacted] 25X1

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Should oil prices fall, the problems will intensify. Difficulties will mount for debtors in servicing debt and for Western banks collecting payments. Pressures would mount on governments implementing further austerity measures and meeting popular resistance. For example, Nigeria's new government could be threatened by increased social unrest. Finally, Iraq's ability to sustain the war effort against Iran would be deeply affected by lower oil prices. Baghdad probably will use its excess capacity and aggressive pricing tactics to sell as much oil as necessary to secure vital imports. In addition, Iraq probably would step-up bombings on ships, civilian targets, and

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production facilities in hopes of either forcing Iran to a settlement or hampering Tehran's abiltiy to finance the war.

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Appendix 1
Selected Tables

Table 1

OPEC: Crude Oil Production

(million b/d)

	1982	1983	1984	1985			
				Quarterly Quota	First Quarter	Second Quarter	July[a]
Total[b]	18.89	17.69	17.95	16.0	17.0	14.7	14.6
Algeria	.70	.70	.70	.663	.70	.70	.70
Ecuador	.21	.24	.25	.183	.26	.28	.29
Gabon	.15	.15	.19	.137	.18	.18	.18
Indonesia	1.31	1.32	.142	1.189	1.29	1.07	1.00
Iran	2.28	2.45	2.38	2.30	2.17	2.32	2.20
Iraq[c]	.97	.92	1.18	1.2	1.24	1.31	1.38
Kuwait[d]	.82	1.06	1.18	.9	1.15	.94	.92
Libya	1.18	1.17	1.10	.99	1.04	1.09	1.10
Nigeria	1.30	1.24	1.40	1.30	1.57	1.23	1.02
Qatar	.33	.30	.39	.28	.28	.29	.28
Saudi Arabia[e]	6.49	5.19	4.84	4.35	3.82	2.67	2.90
UAE	1.25	1.10	1.21	.95	1.16	1.12	1.12
Venezuela	1.89	1.79	1.71	1.555	1.58	1.50	1.50

[a] Preliminary

[b] Numbers may not add because of rounding

[c] Crude sales to Iraqi customers by Saudi Arabia and Kuwait is being charged against Iraq's quota.

[d] Neutral Zone production is shared equally between Saudi Arabia and Kuwait.

[e] Saudi Arabia has no formal quota. It acts as swing producer to meet market requirements.

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Table 2

OPEC: Current Account[a]

(billion US$)

	1980	1981	1982	1983	1984[b]	1985[c]
Exports (f.o.b.)	291.9	265.6	208.7	172.4	171.3	147.8
Oil	275.4	250.9	194.7	157.2	154.4	129.4
Non-Oil	16.5	14.7	14.0	15.1	16.9	17.0
Imports (f.o.b.)	-129.8	-160.1	-159.1	-136.8	-129.2	-121.9
Trade Balance	162.1	148.8	49.6	35.6	42.1	25.9
Net Services	-44.3	-55.1	-58.9	-54.5	-48.0	-51.0
Freight and Insurance	-19.2	-24.8	-23.8	-20.4	-19.0	-18.3
Investment Income[d]	26.8	34.9	33.5	29.2	26.5	25.3
Other[e]	-48.5	-61.6	-65.2	-61.0	-54.3	-57.1
Grants	-10.4	-10.4	-8.9	-3.4	-2.9	-2.8
Current Account Balance	107.4	40.0	-18.5	-22.3	-8.8	-26.0
Of Which:						
Poor OPEC[f]	32.1	-33.4	-37.4	-20.7	-10.9	-15.3
Rich OPEC[g]	75.3	73.4	18.9	-1.6	2.1	-10.5

a Assumes no significant oil price decline.

b Estimated

c Projected

d Earnings on Official Assets Only.

e Includes debt service payments, worker remittances and other service payments.

f Algeria, Ecuador, Indonesia, Iran, Iraq, Libya, Nigeria, and Venezuela.

g Gabon, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates.

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Table 3

OPEC: Current Account Balances[a]

(billion US $)

	1980	1981	1982	1983	1984[b]	1985[c]
Total[d]	108.6	42.0	-16.9	22.3	-8.8	-26.0
Algeria	1.6	-1.8	-2.8	-2.0	-2.2	-1.8
Ecuador	-.2	-1.2	-1.6	-.7	-.2	-.2
Gabon	.6	.2	.2	.3	.6	.1
Indonesia	5.0	-.5	-6.6	-7.0	-2.7	-5.6
Iran	.5	-2.4	6.2	-.9	-4.0	-2.3
Iraq	7.6	-17.1	-19.9	-8.8	-4.8	-5.6
Kuwait	15.0	11.4	5.1	5.7	5.8	4.4
Libya	9.6	-5.1	.5	-1.0	-1.5	-1.2
Nigeria	5.1	-5.9	-7.7	-4.7	-.5	.1
Qatar	3.0	2.7	1.0	1.2	2.2	1.7
Saudi Arabia	47.5	49.7	7.5	-15.0	-13.2	-20.8
UAE	9.2	9.4	6.4	6.2	6.7	4.1
Venezuela	3.8	2.6	-5.5	4.4	5.0	1.3

[a] Excludes holdings on private OPEC holdings abroad

[b] Estimated

[c] Projected

[d] Totals may not add because of rounding.

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